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RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 6007
RUEHBJ/AMEMBASSY BEIJING 3701
RUEHKO/AMEMBASSY TOKYO 3560
RUEHIT/AMCONSUL ISTANBUL 4249
RUEKJCS/JOINT STAFF WASHDC
RUEAIIA/CIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEFDIA/DIA WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUCNDT/USMISSION USUN NEW YORK 1318
RUEHVEN/USMISSION USOSCE 4188

C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 001619

SIPDIS

STATE FOR SCA/CEN; EEB;
ENERGY FOR EKIMOFF/BURPOE/COHEN
COMMERCE FOR DSTARKS/EHOUSE

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TAGS: [EPET](#) [ECON](#) [PGOV](#) [EINV](#) [BTIO](#) [TX](#)
SUBJECT: CENTRAL ASIA-CHINA PIPELINE OPENED IN TURKMENISTAN

REF: A. BEIJING 3326
[1](#)B. ASHGABAT 1387

Classified By: Charge Sylvia Reed Curran for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: The Presidents of Turkmenistan, China, Kazakhstan, and Uzbekistan participated in the December 14 opening of the Central Asia-China gas pipeline in Lebap Province in eastern Turkmenistan. The pipeline opening represented over three and a half years of planning and construction. Turkmenistan's President Berdimuhamedov stated that the pipeline "has revived the ancient Silk Road," stressing that the pipeline is not only a mutually beneficial commercial project for the countries involved, but also a politically significant achievement. China National Petroleum Company (CNPC), which built the pipeline, plans to receive up to 40 billion cubic meters (bcm) of Turkmen gas annually. The new pipeline was inaugurated at a time when Turkmenistan and Russia have yet to agree on gas price and volumes for 2010, and Turkmenistan plans to increase gas imports to neighboring Iran over the next month to increase much-needed revenues. END SUMMARY.

COOPERATION, BROTHERHOOD, AND CEREMONY

[1](#)2. (C) Turkmenistan President Berdimuhamedov, Kazakhstan President Nazarbayev, Uzbekistan President Karimov, and PRC President Hu Jintao officially opening the Central Asia-China pipeline at a formal ceremony in northern Lebap province on December 14. At both the formal dinner on December 13 and the opening ceremony, the speeches emphasized the common themes of cooperation among the countries and the brotherhood of the peoples. The ceremony itself was held in a huge hall, with an audience of hundreds, including foreign business leaders, diplomats, local leaders, and the top government officials of Turkmenistan. The four presidents symbolically turned a gas valve to inaugurate the pipeline. In an interesting U.S. angle, the presidents traveled from venue to venue at the plant via a golf car recently shipped from Chicago.

13. (C) According to one of the Chinese workers at the plant, the Chinese workforce numbered 4,000 at the peak of construction, but has now stabilized at 1,000. China had been given an exception to the labor law that mandates 70-30 Turkmen-foreign labor, as the overwhelming majority of laborers on the project had been Chinese. The large number of Chinese workers and perceived unfairness by Turkmen workers had led to fights at the plant (reftel) and problems with local residents. However, in order to placate sensibilities and present the correct picture to visiting guests, the majority of "workers" lining the roads and walkways around the plant, waving flags and balloons, were ethnic Turkmen. (NOTE: The map of the various venues, in Chinese, English, and Turkmen, labeled the place where the "workers" present at the ceremony would eat following the event as the "dining hall for the actors." END NOTE.)

A CHRONOLOGY OF THE PIPELINE

14. (SBU) On April 3, 2006 Turkmen and Chinese officials signed an intergovernmental agreement on construction of the "Turkmenistan-Uzbekistan-Kazakhstan-China" gas pipeline. The officials agreed to deliveries of gas to China in the amount of 30 bcm per year. In July 2007, Turkmen President Berdimuhamedov visited China, where the Turkmen state-owned gas company Turkmengaz signed a gas sale and purchase agreement with CNPC. At the same time, the Turkmen State Agency for the Management and Use of Hydrocarbon Resources signed an onshore gas production sharing agreement (PSA) with CNPC.

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15. (SBU) The signing of the PSA with CNPC sparked frustration among international energy companies seeking business in the country, as Turkmen law allows for foreign companies to work in onshore gas development by service contracts only. The Chinese had laid the groundwork for the PSA. They started their partnership with the Turkmen state oil company Turkmenneft in 2002 by doing oil well rehabilitation on a service contract basis. In addition, when the Chinese committed to build the pipeline, the Turkmen felt justified in awarding CNPC an onshore PSA.

16. (SBU) In August 2007, Berdimuhamedov attended a ceremony in eastern Turkmenistan commemorating the welding of the first joint of the pipeline in Lebap Province. CNPC also began infrastructure construction on the Bagtyarkyk Contractual Territory, the area designated under the PSA for natural gas development. By June 2008, construction of the Uzbek section of the pipeline had begun in Bukhara. In July 2008, construction of the 1300 km Kazakh-Chinese section of the pipeline commenced in Almaty. In June 2009, Turkmenistan and China agreed to increase the volume of annual gas supplies from 30 bcm per year to 40 bcm per year. Turkmengaz and the State Agency for the Management and Use of Hydrocarbon Resources signed gas purchase agreements with CNPC and PetroChina, but the agreed prices were not disclosed.

ANTICIPATED VOLUMES

17. (SBU) The Central Asia China pipeline is 7,000 km long and traverses four countries (Turkmenistan-184.5 km, Uzbekistan-490 km, Kazakhstan-1,300 km, and China-4,500 km). Turkmen media have boasted the pipeline will have a capacity of 40 bcm, without explaining that 40 bcm is the pipeline's projected maximum capacity (ref B). According to Turkmen Ministry of Oil and Gas and CNPC publications, gas supplies from Turkmenistan to China will be increased gradually over the next five years. It is anticipated that only 4-5 bcm of gas will be transported in 2010, by 2011 11-13 bcm of gas will be shipped, by 2012 the volumes will be 17-18 bcm of gas, by 2013 volumes should reach 27 bcm, and by 2014 the pipeline should reach its full capacity of 40 bcm. Gas

demand in China is expected to rise significantly over the next five years to justify the 40 bcm capacity (ref A).

SIGNIFICANCE FOR TURKMENISTAN

18. (C) Given that gas sales to Russia stopped in April, it is believed that Turkmenistan has lost nearly \$9 billion in gas revenues, and has been forced to dig into its cash reserves. The opening of the Central Asia-China pipeline is significant in that it provides an alternative destination for potentially large volumes of Turkmen gas. Russia traditionally purchased around 40 bcm of Turkmen gas per year, turning a large profit by reselling that gas to the rest of Europe, mostly via Ukraine. Bringing China online as a customer has also bolstered confidence in the GOTX economy by foreign companies concerned by rumors of dwindling Turkmen currency reserves. Completion of the Dovletabat-Sarakhs-Khangiran pipeline to Iran by early 2010 could increase imports to Iran from 12 to 24 bcm of gas per year, providing additional revenue.

19. (C) COMMENT: The USG has supported the Central Asia-China pipeline since its inception, and its completion represents a major step in Turkmenistan's efforts to diversify its transport routes and customers. In addition, the feat signifies the ability of three Central Asian countries to collaborate successfully on a joint project, albeit with Chinese oversight. The GOTX will continue to rely on

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hydrocarbon revenues to support its expenditures in the foreseeable future. The investments needed to increase Turkmen gas production to fill pipelines to China, Iran and Russia could provide the opportunities that Western energy companies, as well as equipment and service providers, have been waiting for. END COMMENT.
CURRAN